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Report to the Chairman, Subcommittees
on Defense, Senate and House
Committees on Appropriations

October 1989

ARMY BUDGET

Potential Reductions to the Operation and Maintenance Budget

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National Security and
International Affairs Division

B-223502

October 19, 1989

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

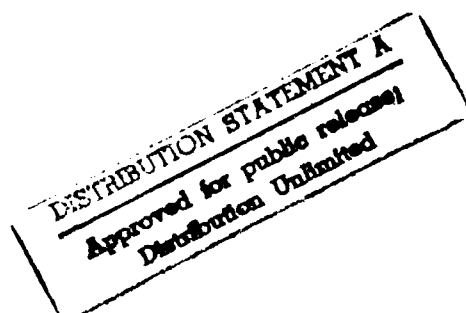
As you requested, we reviewed selected items in the Army's fiscal year 1990 operation and maintenance budget to identify potential reductions. As arranged with your offices, we focused our analysis on the flying hour and force modernization programs. Our preliminary analysis was provided earlier to your offices for consideration during budget deliberations. This letter summarizes the final results of our evaluation.

We identified net potential reductions of \$31.2 million for these two programs: \$15.6 million in the flying hour program and \$15.6 million in the force modernization program. The potential flying hour program reductions are based on an inadequate justification for the requested increase and an historical underuse of funded flying hours by the active Army and the Army Reserve. The net potential reductions identified in the force modernization program are due to changes in the number of systems that will be fielded and sustained during the budget year and the Army's overstated funding request.

Potential Adjustments to the Army's Flying Hour Program Budget

In its fiscal year 1990 budget, the Army requested \$335.2 million and 1,858,916 flying hours for its flying hour program. The active Army requested \$249 million for 1,333,672 flying hours; the Army National Guard requested \$70.7 million for 431,700 hours; and the Army Reserve requested \$15.5 million for 93,544 hours. The flying hour request is for \$19.4 million more than the amount funded in fiscal year 1989, which is an increase of 105,435 flying hours.

In preparing its fiscal year 1990 request for the flying hour program, the Army used the number of aircraft authorized for each command and activity and the number of hours each aircraft would be required to fly, on average, each month to meet the proposed training requirements as the basis for determining the number of flying hours needed for the



active Army. It used the projected number of aircrews to be trained as the basis for determining flying hour requirements for the Army Reserve and the Army National Guard.

The Army centrally manages its flying hour program and allocates funded flying hours among the active Army, the Army National Guard, and the Army Reserve on a quarterly basis. If one of these components does not use part of its flight hour allocation during a quarter, the Army can reallocate the hours to another component for the following quarter within the fiscal year.

As shown in table 1, our analysis of the Army's flying hour programs for fiscal years 1985 through 1989 shows that the Army has not used some of the flying hours it has funded.

Table 1: Hours Budgeted, Funded, and Used in the Army's Flying Hour Program

Component	Fiscal year					
	1985	1986	1987	1988	1989 ^a	1990
Active						
Budgeted ^b	1,276,457	1,504,882	1,507,275	1,449,193	1,337,236	1,333,672
Funded ^c	1,376,218	1,504,882	1,330,664	1,253,302	915,369 ^d	
Used	1,225,735	1,266,146	1,299,401	1,247,654	871,598	
Difference	-150,483	-238,736	-31,263	-5,648	-43,771	
Percent unused	10.9	15.9	2.3	0.450	4.78	
National Guard						
Budgeted	318,694	306,197	358,460	359,013	369,455	431,700
Funded	329,029	306,197	358,460	391,654	292,068 ^e	
Used	319,330	330,104	363,163	394,173	273,888	
Difference	-9,699	23,907	4,703	2,519	-18,180	
Percent difference	2.9	7.8	1.3	0.643	6.22	
Reserves						
Budgeted	90,572	105,187	89,931	95,943	102,586	93,544
Funded	90,476	100,053	89,931	88,325	61,027 ^f	
Used	70,273	73,026	80,616	79,037	54,215	
Difference	20,203	-27,027	-9,315	-9,288	-6,812	
Percent unused	22.3	27.0	10.4	10.5	11.16	
Total unused	180,385	241,856	35,875	12,417	68,763	
Total percent unused	10.0	12.6	2.0	0.716	5.42	

^aThe budgeted figures reflect hours for all of fiscal year 1989. The figures for hours funded, used, and unused reflect only the first three quarters of the fiscal year.

^bBudgeted hours are the flying hours requested in the President's budget.

^cIncludes adjustments made by the Army.

^d1,261,497 hours were funded for the entire fiscal year.

^e408,046 hours were funded for the entire fiscal year.

^f83,938 hours were funded for the entire fiscal year.

Table 1 shows that the active Army and the Army Reserve have not been able to use all of their funded flying hours during fiscal years 1985 to 1988. The Army National Guard, on the other hand, has used more hours than were initially funded in fiscal years 1986 to 1988.

As of June 30, 1989, the active Army, the Army Reserve, and the Army National Guard have been unable to use about 5.4 percent of their fiscal year 1989 funded program hours. Specifically, the active Army has not

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used 43,771 hours; the Army Reserve has not used 6,812 hours; and the Army National Guard has not used 18,180 hours.

Army program officials said that the underuse of funded flying hours has been caused by a variety of factors, including aircraft groundings, aircraft unavailability, poor weather conditions, delayed aircraft fieldings, and overly optimistic estimates of the training that could be accomplished.

Even though the Army continues to have difficulty in using the flying hours it has funded for the active Army and the Army Reserve, it is requesting funding to fly 81,781 (or 6.1 percent) more hours in fiscal year 1990 than were funded for these components in fiscal year 1989. For some years, the Army at budget time has argued that its pilots require more monthly flight training than they are receiving to be proficient. While pilots do not always receive required monthly flight training, the reasons for this is not a lack of funding but the aforementioned factors such as aircraft groundings. The Army's justification for the additional hours requested does not give a clear indication of how it will overcome these perennial problems.

On the basis of an inadequate justification for the increase and the active Army's and the Army Reserve's historical patterns of flying fewer hours than funded, we believe that there is no basis for increasing the fiscal year 1990 flying hour program for these components by \$15.6 million (or 81,781 hours): \$14 million for 72,175 hours for the active Army and \$1.6 million for 9,606 hours for the Army Reserve.

We believe that these adjustments are appropriate, considering that (1) the Army's inventory of aircraft is due to decrease by at least 192 in fiscal year 1990, and (2) some aircraft that were included in the calculations of the fiscal year flying hour budget for 1990 were damaged by wind and may not be available for the entire year.

Potential Adjustments to the Army's Force Modernization Program Budget

The Army's force modernization program provides funding for the fielding and sustainment of major new or modernized equipment entering the Army's inventory. The one-time costs associated with introducing and distributing new or modernized equipment into the Army's inventory are referred to as "fielding costs." These costs include initial provisioning of repair parts and supplies, operator training, training materials and publications, and operational testing. In contrast, sustainment costs are those associated with the operation and support of systems that

have been fielded. They include the costs of depot maintenance, modification, supply operations, and in-house and contractor logistical support.

In its fiscal year 1990 operation and maintenance budget, the Army has requested about \$2.3 billion for the force modernization program. This request includes \$523 million for fielding additional systems and \$1.8 billion for sustaining fielded systems.

Our analysis focused on the Army's 52 intensively managed force modernization systems, which account for \$2 billion, or about 86 percent of the force modernization program budget. Since submission of the fiscal year 1990 budget request, the Army is planning changes in the numbers of units to be fielded and sustained for 30 of the 52 systems. Increases in the number of units to be fielded and sustained have resulted in understated budget requirements for 13 of the systems, and reductions in the number of units have resulted in overstated requirements for the other 17 systems. The Army's funding request for seven systems is also overstated for other reasons. For example, the Army included funding to test the improved OH-58D helicopter, but it has since canceled the testing.

On the basis of the changes in the number of systems to be fielded and sustained, overstated budget dollar requirements, and the Army's estimates of the average variable unit costs for fielding and sustaining each system, we estimate that the force modernization program budget could be reduced by about \$15.6 million, as shown in table 2.

Table 2: Net Potential Adjustments to the Army's Fiscal Year 1990 Force Modernization Program Budget

Dollars in millions

Description	Budget request	Estimated potential adjustment
Bradley Fighting Vehicle	\$193.1	+\$13.17
Single Channel Ground and Airborne Radio System	40.0	+2.17
Multiple Launch Rocket System	44.0	+1.56
AH-1S Cobra Attack Helicopter	81.8	+1.50
Battery Computer System	7.2	+0.84
AN/TTC/TRC/TYC Communication Equipment ^a	33.1	+0.66
UH-60A Blackhawk Helicopter	130.7	+0.62
Firefinder Radar	21.6	+0.32
OH-58D Army Helicopter Improvement Program	39.0	-13.87
AH-64A Apache Attack Helicopter	159.7	-3.88
Maneuver Control System	31.8	-2.86
M1/M1A1 Tanks ^a	383.0	-2.49
Forward Area Air Defense System ^a	41.4	-2.43
Army Data Distribution System	7.5	-2.03
CH-47D Chinook Helicopter	60.4	-1.61
M9 Armored Combat Earthmover	7.8	-1.44
Army Tactical Missile System	6.9	-1.39
Field Artillery Ammunition Support Vehicle	10.7	-1.22
Hellfire Missile	7.1	-0.94
EQUATE Electronic Test and Repair System	8.0	-0.81
Fire Support Team Vehicle	16.7	-0.64
M60A3 Tank	100.1	-0.40
Army Field Artillery Tactical Distribution System	2.7	-0.20
Stinger Missile System	10.8	-0.16
Copperhead Projectile	12.8	-0.08
Total	\$1,457.9	-\$15.61

^aConsists of more than 1 system

Objective, Scope, and Methodology

To analyze the flying hour budget, we compared budget and execution data for fiscal years 1985 to 1989 to determine whether the Army has been able to fully execute its budgeted programs. To determine whether budgeted costs were realistic, we compared the budgeted numbers of flying hours with funded flying hours.

To analyze the force modernization budget, we compared the Army's current estimates of when equipment would be fielded with those used to develop the budget. Also, we discussed the initial and current distribution plans and funding requests with the responsible Army official. We then recalculated costs based on the revised plans and on the Army's fixed and variable cost estimates.

We discussed our potential force modernization budget adjustments with the responsible Army official, and he agreed with each of our adjustments except for our adjustment to the improved OH-58D helicopter program. He confirmed that \$10.2 million of the \$13.9 million that we had identified for possible budget reduction was for testing that had been canceled. He pointed out, however, that the Army would like to use these funds for other purposes.

We interviewed budget and program officials at Headquarters, Department of the Army, Washington, D.C. We analyzed execution data for prior-year budgets, budget justifications, and planning documents related to the Army's budget request.

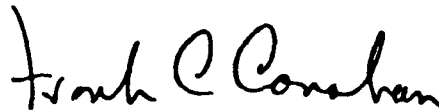
We performed our review from April to August 1989 in accordance with generally accepted government auditing standards.

As requested, we did not obtain agency comments on this report. However, we discussed the report with responsible agency officials and included their comments where appropriate.

As arranged with your offices, we are sending copies of this report to concerned congressional committees; the Secretaries of Defense and the Army; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Richard Davis, Director, Army Issues, who may be reached on (202) 275-4141 if you or your staff have any questions. Other major contributors were Raymond

Dunham, Assistant Director; William Newman, Evaluator-in-Charge;
Nancy Lively, Evaluator; and George Shelton, Evaluator.

A handwritten signature in black ink, reading "Frank C. Conahan". The signature is written in a cursive style with a large, stylized "F" and "C".

Frank C. Conahan
Assistant Comptroller General